Stability and Growth Pact obligations suspended

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The EU has taken unprecedented measures to counter the disastrous effects on the economy of the COVID-19 pandemic. On Monday, the 23rd of March, Finance Ministers have agreed to the proposal of the Commission to relax Member States' budgetary requirements that would normally apply under the Stability and Growth Pact. This measure highlights the fundamental challenges that the Economic and Monetary Union (EMU) has been facing for the past decades and, therefore, the fragility of the eurozone.

The Stability and Growth Pact (SGP) is the tool based on which economic policies are coordinated and which aim to ensure the stability of the EMU. It came into practice as a Council Regulation proposed in 1997 by the German finance minister at that time and was adopted in 1998 by member states of the European Union, with a second part being adopted in 1999. Its main goal was to ensure that Member States strive for sound fiscal policy measures, low state debt and low inflation - just like the trademarks of the German economy – assuring the Euro's stability. It mandates Member States to limit the government deficit at 3% and state debt at maximum 60% of GDP, as well as to submit Member States' current and subsequent three years fiscal plans for review to the Commission and the Council of Finance Ministers. In case of breaches, the Commission should take measures against individual countries and start and Excessive Deficit Procedure. The tool became important part of the Maastricht convergence criteria and the Copenhagen criteria and today is regulated by Articles 121 and 126 of the TFU.

The Stability and Growth Pact has been heavily criticized for not providing enough flexibility to adjust Member States' different economies, and for not applying the Excessive Deficit Procedure consistently and equally to all countries. The difficulty to adjusting the budgetary requirements previewed by the SGP is proved even by the fact that only two Members States have never breached them: Estonia and Sweden. Even the EU's largest economies, such as Italy, France and, yes, even Germany, have several times exceeded the commonly agreed state debt of maximum 60 % of GDP.

As in our earlier analysis we have written, the European Union's economy is facing difficulties of "warlike times". Yet, a few days ago, the European Bank was still reluctant to introduce extraordinary strong measures similar to the one of Mario Draghi's commitment to euro. While all measures taken by the EU are all welcome, it seems that the minister's councils' decision, according to which the "conditions for the use of the general escape clause of the EU fiscal framework – a severe economic downturn in the euro area or the Union as a whole – are fulfilled", and, therefore, to allow Member

States' to spend beyond the agreed ceilings, is the boldest movement of the EU. This has never happened in the past 22 years, not even during the financial crisis of 2008.

In spite of providing generous stimulus packages, this extreme measure of the EU basically recognizes that Member States' economies, their social and political background are so different, that in cause of a crisis, it is impossible to apply a common monetary policy for the EU. Federalists have been stressing for quite a long time that the common monetary policy ought to be complimented with common fiscal policies, in order to provide the economic stability of the euro area. However, as a lack of sufficient political support, Members States have not yet agreed to an even closer integration.

The current situation raises two main questions. Firstly, if Member States' will use excessive spending in order to keep the economy going, what measures will be taken by the ECB to counteract the looming inflation? Will it do "whatever it takes" to save the Euro? Secondly, it raises the question regarding the future of the European Union. More precisely, it puts on the agenda the question of a stronger integration, including a harmonizing of countries' fiscal policies, as it has long been proposed by the federalist. Still, the current crisis might strengthen the view according to which the EU is mainly an economic and trading area; and member states' individual governments are the most well-suited to make policies that actually work in these very different environments and, which, make the EU, and the world go around.

24.03.2020.